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ABSTRACT

This paper provides an overview and analysis of the practice of tuition discounting by higher education institutions, especially private institutions. It explains that tuition discounting the practice of permitting some students to pay less than full tuition has risen markedly in recent years, and that there is significant confusion regarding the practice due to the reluctance of higher education officials to talk openly about finances and because different groups within higher education use different definitions of the term for different purposes. The paper discusses the differences between simple tuition discounts, scholarship allowances, student tuition discounts, and gross and net tuition revenues, noting that these terms are used by different constituencies in different ways. It also reviews the effects of Financial Accounting Standards Board (FASB) Rule 116, Accounting for Contributions Received and Contributions Made, and FASB Rule 117, Financial Statements of Not-for-Profit Organizations, on the practice of tuition discounting. The report concludes that most of the confusion with respect to tuition discounting in higher education stems from the failure of different constituencies, namely administration, finance, and marketing, to recognize and have a clear grasp of the distinctions between their own and others' definitions. (Contains 16 references.) (MDM)

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MONOGRAPH SERIES

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by Ronald Gage Allan

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ABOUT THE AUTHOR

Ronald Gage Allan is the manager for data and research services in the Office of Student Financial Services at Georgetown University. He holds a bachelors degree in industrial management from the University of Cincinnati's program in co-operative education, as well as a MBA from the same institution. He has earned a Ph.D. degree in economics from George Washington University and a Master of Taxation from Georgetown University. Dr. Allan has held positions in the United States Department of Commerce's Bureau of Economic Analysis and in the Tax Analysis Division of the Congressional Budget Office. His previous publications are in the area of taxation and include, "A Cluster Analysis of Horizontal Tax Equity," and "Tax Preparers and Horizontal Tax Equity," both with Harvey Iglarsh of the Georgetown University McDonough School of Business.

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F O R E W O R D

In recent years, private colleges have increased the practice of discounting their tuition charges to students while growing numbers of public colleges are beginning to follow suit. These practices have helped keep the growth in average net prices to students and parents more in line with inflation in the general economy. For many students, there practices have helped keep college affordable. However, as the practice of tuition discounting becomes more widespread, so do misunderstandings about the multiple motivations for discounting and its effects on such things as student ability to pay for education and the financial health of colleges and universities. Discussions of these issues are made more complex, and less satisfying, by the fact that participants frequently do not have a common vocabulary or set of concepts in mind as they try to reach agreements.

This monograph is being published to facilitate discussions of tuition discounting and to help alleviate the confusion surrounding the issue. In his monograph, Dr. Allan provides a brief history of tuition discounting, describes why it is an important issue to higher education, and offers clear definitions of the many concepts involved. The Sallie Mae Education Institute (SMEI) is pleased to publish this work as part of our mission to focus attention on issues in higher education finance. We are sure that you will find Dr. Allan's observations as interesting and useful as we have. We hope that this monograph helps clarify discussion and debate on an increasingly important issue.

Jerry S. Davis

President

Sallie Mae Education Institute

I N T R O D U C T I O N

Tuition discounting, the practice of permitting some students to pay less than full tuition in exchange for instruction, has risen markedly in profile in recent years, both inside and outside of academe. This increase in visibility makes it important that colleges understand tuition discounting in order to facilitate more efficient revenue management and to provide credible information to a public demanding explanations for rising college costs.

Confusion permeates tuition discounting in both internal and external arenas. One source of confusion is that college administrators and policy analysts have different views of the subject and tend to talk past each other when discussing it. Some administrators focus narrowly on tuition revenue not collected while others focus on the tuition the students do not pay. These amounts are usually different because of the role played by institutional and outside grants in the student aid process. Different groups within higher education use different definitions of tuition discounting for different purposes, adding to the confusion.

Tuition discounting is misunderstood by the public in part because the higher education community does not discuss it with one voice. Although most higher education administrators understand their piece of the tuition discounting puzzle and the context within which they operate, the different definitions used by others are not well understood. Some higher education administrators do not have a clear idea of what tuition discounting is, that it has many definitions, or how it might affect their operations. Discussions of the subject with the public tend to be fragmented. An example of the fragmentation appears in the title of this paper: tuition discounting, institutional student aid and scholarship allowances. Each has a slightly different meaning and each is used in different contexts. But all refer to the same practice and, to add to the confusion, are often used interchangeably. Understandably, the public reacts to this fragmented discussion with skepticism.

Congress, prompted by public concerns over rising college costs, created the National Commission on the Cost of Higher Education. These concerns also led to legislation in the recent (1998) Higher Education Act which gave the Commissioner of Education Statistics the task of conducting a national study of college expenditures to evaluate the extent to which increases in institutional financial aid and tuition discounting practices affect tuition increases. For all of the above reasons, higher education has reached a point where it will be helpful for college administrators and other interested parties to better understand tuition discounting so that the subject may be more intelligently discussed within academe and more credibly explained to the skeptical public and Congress.

Therefore, the purpose of this paper is to contribute to the broader understanding of tuition discounting by providing clear definitions of its terms and an analysis of some of the associated issues. It begins with a review of why tuition discounting issues are important and then outlines the sources of confusion. The various types of tuition discounts are defined as are related terms such as *gross tuition revenue*, *net tuition revenue* and *grossing up*. The manner in which tuition discounting was administered prior to the recent changes in the fund accounting rules is presented as historical background. The impact of the new accounting rules is described along with some of the pitfalls that mark the new regime. The different uses of tuition discounting by the three higher education groups that employ them are outlined. Finally, the accumulated definitions are applied to an analysis of some of the practical and political problems associated with tuition discounting.

A BRIEF REVIEW OF THE ISSUES

Tuition discounts are generally the financial aid of last resort, given to students after packages of federal work study, grants and loans, and sometimes private supplementary loans, are offered. Students are then awarded grants from the college's private gifts and endowments. If a college meets full need, or just wishes to provide further assistance, any residual aid is provided by waiving some or all of the student's tuition in the form of a grant. Tuition funded by gift and endowment funds and/or by the waiver of tuition owed is often referred to, and accounted for, as institutionally funded grant aid.

There are two sets of issues in tuition discounting: those related to policy and those related to public relations. The policy issues have their origin in the relationship between tuition levels and families' ability to pay. In the past, tuition charges have risen rapidly, and at a faster rate than most measures of economic growth, inflation and ability to pay (College Board, 1998). At the same time, most externally funded (e.g., federal and state-supported) financial aid programs have grown more slowly than the cost of attending college. Many colleges have responded by increasing their awards of institutionally funded financial aid, which, for some colleges, means increasing the waiving of tuition.

Institutionally funded financial aid has supported access to higher education for many financially needy students. Tuition discounts have also encouraged participation of middle-class students from families who increasingly are unable or unwilling to pay the stated price of independent colleges. At colleges with declining applicant pools, these partial scholarship awards bring in additional students and net marginal revenues because students who receive the awards are given the needed incentive to enroll.

Along with these desirable results, tuition discounting sometimes produces unwanted effects. As colleges increase the discount in their prices, their tuition revenue to fund educational programs decreases. As more funds are devoted to financial aid, gross tuition (tuition charged before discounts) must grow much more quickly to pay for program costs and overhead.

Several public relations issues arise as a result of increased tuition discounting. Recent articles in the popular press on college affordability (See Morganthau and Nayyer, 1996 and Larson, 1997) have raised public concern that many students are being priced out of the higher education market. As information about tuition discounting practices becomes more widely known, the families of some "full-pay" students have concluded that they are directly subsidizing students with need. These and other concerns about the rising cost of a college education led Congress to establish a National Commission on the Cost of Higher Education (HECC). The Commission was asked to determine the extent to which increases in institutional financial aid and tuition discounting have affected tuition increases. It studied the characteristics of students receiving institutional aid, the extent to which such aid is used to attract students with limited need to particular institutions or major fields of study, and the extent to which federal financial aid, including loan aid, has been used to offset tuition increases. The Commission recommended that colleges and universities develop better consumer information about costs and prices and improve accountability to the general public. As explaining financial issues to the public becomes necessary, it is vital for higher education to have a good understanding of the issues and a common set of definitions for tuition discounting.

SOURCES OF CONFUSION

The confusion surrounding tuition discounting has several provenances. One is the historic reluctance on the part of higher education to talk openly about its finances. Barry Munitz, Chancellor of the California State University System and a member of the HECC has stated: "A college's finances are very complicated and therefore hard to explain. But many college officials have also made it clear that they don't want the public to know where they get their money and how they spend it" (Burd, 1997). The reluctance of some higher education administrators to make financial information available to the public without the opportunity to interpret it is understandable, but growing public interest in the subject will require the higher education establishment to be more forthcoming.

A by-product of higher education's reluctance to discuss finances openly is a tendency for observers both inside and out to confuse tuition discounts with the subsidies that all students receive, regardless of whether they are awarded tuition discounts. One of the services performed by the Commission in its report was to provide definitions of college *cost*, *price* and *subsidy* (HECC, p. 6). *Costs* are amounts institutions spend to provide education and related edu-

cational services to students. *Prices* are the amount students and their families are charged and sometimes what they pay. *General subsidies* are the difference between the cost to the institution of providing an education and the amount actually charged to students. It is important to note that tuition discounts are reductions from the stated prices to students, not from the total cost of their education.

A second source of confusion is that reasons for using tuition discounting vary by institution. Smaller, less selective colleges use it as a tool to achieve enrollment goals. Highly selective colleges that can reach their enrollment goals with students whose families are in a position to pay full tuition, admittedly a very small number of institutions, use tuition discounts to enhance the quality and diversity of their student bodies.

An element of "spin" imparted to the discussion of discounting by leaders of the more selective colleges adds to the confusion. For example, in a 1993 article in the *Brookings Review*, William Bowen and David Breneman suggest that highly selective schools are not really discounting tuition but rather are making an educational investment in the future of the nation. Such assertions may cause the uninformed, including many who work in higher education, to believe that their institutions are not actually "discounting tuition" in the sense of providing institutionally funded grants. Worse, knowledgeable members of the general public may come to suspect that higher education is attempting to pull the wool over their eyes by denying the existence of a practice they know exists.

It is difficult for higher education to be forthcoming about tuition discounts and tuition discount rates because different persons use these concepts for different purposes, each employing slightly different definitions. Tuition discounting means one thing to college administrators: basically foregone tuition revenue. It means something different to students, parents, and admissions and financial aid staff: basically tuition amounts that are not paid out of student resources, i.e., tuition foregone by the college plus all grants, governmental, institutional and outside, received by the student. Frequently in discussions of college and university finances, it is not clear which perspective is being invoked. This is an important consideration because these discussions often include the projection of future tuition revenue. If all participants in the discussions are not using the same definition of tuition discounting, or at least are aware of the differences in definitions, then disparities in the forecasts of net tuition revenue may yield invalid results.

TERMS AND DEFINITIONS

The term *tuition discount* is used in this paper to represent generically all forms of revenue foregone by the institution, and/or the benefit derived by the student, when a college accepts less than full tuition in exchange for instruction. Three specific definitions of tuition discounting are discussed below. Each has a different use and different users. Note that the definitions are successively broader, each containing all the elements of the previous definition plus additional elements. The three definitions are:

- Simple Tuition Discount
- Scholarship Allowance
- Student Tuition Discount

Simple Tuition Discount

The first definition consists solely of the waiver of all or a portion of the tuition due, usually in the form of a grant. This is the *Simple Tuition Discount*. It includes no funding from internal sources, such as gifts and endowments, or from external sources, such as Pell or SEOG grants. This type of tuition discount is most common at independent colleges with little or no endowment for student financial aid. Note that *Simple Tuition Discounts* include all forgiveness of a student's tuition whether the forgiveness takes the form of a waiver (the tuition is never charged to the student's account) or is given in the form of a grant (the tuition is charged to the student's account and paid for with an "institutional grant.")

Scholarship Allowance

A more inclusive concept is the *Scholarship Allowance* which consists of all institutionally funded financial aid, including *Simple Tuition Discounts* plus tuition payments funded by gifts and endowments (referred to henceforth as Gifts and Endowments). This definition has been used by the National Association of College and University Business Officers (NACUBO) in its tuition discounting surveys, begun in 1991 (NACUBO, 1991), which monitor the increases and decreases of gross and net tuition vis-a-vis inflation rates, income levels of stu-

dents and graduates and faculty salaries at different institutions. The *Scholarship Allowance* definition has also been adopted by the new Financial Accounting Standards Board (FASB) rules for the reporting of tuition discounts on college and university financial statements. The new rules, FASB Rule 116 and FASB Rule117, are discussed in detail below.

The *Scholarship Allowance* definition is based on an explicitly economic view of the institution. Financial analysts combine *Simple Tuition Discounts* with tuition funded by Gifts and Endowments in a single definition because the operating and endowment funds are seen as a single financial entity. Money coming into a college is regarded as fungible. When Gift and Endowment income that is restricted to financial aid is paid from the endowment fund into the operating fund, the college is able to spend operating fund money that would otherwise be spent on financial aid on other things. Therefore, although in some respects counter-intuitive, the new FASB rules recognize Gifts and Endowments as income when it comes into the institution through gifts to, or earnings from, the endowment fund, rather than when it is paid into the operating fund as grants for tuition. Funds from truly external sources such as government grants are regarded as "pass-through" and thus are considered non-fungible. The restrictions on these funds are such that the money cannot be spent on anything except the activity for which they are intended.

Student Tuition Discount

The *Student Tuition Discount* is a broader concept than the *Scholarship Allowance*. Conceptually, *Student Tuition Discounts* include all tuition that students do not have to pay out of their own pockets, or by loans or work ("self-help," in financial aid parlance). It includes *Scholarship Allowances* (Simple Tuition Discounts plus Gifts and Endowments) plus all external federal, state, and private grants and scholarships. The *Student Tuition Discount* is of interest to admissions directors and enrollment managers for recruiting purposes, and to other administrators concerned with the public relations aspects of higher education. It also is very important to students and their families.

Gross and Net Tuition Revenues

Gross and *net tuition revenue* are accounting terms that are closely related to tuition discounting. *Gross tuition revenue* is the revenue that would have been collected by the college had all its students paid the full tuition from their own pockets. It is computed by multiplying the published tuition price by the number of students enrolled, adjusted for any enrollment that is less than full time. *Net tuition revenue* is the actual revenue collected by the college. It is computed by subtracting from gross tuition revenues the sum of the tuition discounts, scholarship allowance definition, given.

Until recently, the result of the failure to deduct tuition discounts from tuition revenues, for accounting purposes, was that institutional financial statements did not report the real net revenue the college was earning. This caused confusion, particularly at institutions where healthy tuition growth had unexpectedly little impact on institutional budgets. As a result, many analysts suggested that net tuition revenue should be used as the primary guide in the management of higher education finances (Breneman, p. 50). The implementation of new financial accounting rules, FASB Rule 116 and FASB Rule 117, is an attempt to make the impact of tuition discounting much plainer on individual institutions' financial statements. The net tuition revenue concept is meant to replace the historic practice of administrators congratulating themselves on the one hand for increased levels of total gross tuition, followed by fretting on the other hand over the accompanying increase in the "expense" of institutional aid, or, tuition discounts.

Grossing Up

Grossing up is another term often used in tuition discounting discussions. *Grossing up* is an accounting term that refers to a procedure whereby funds that were never received, indeed never existed, are added to an institution's income statement and offset by the addition of an equal, and equally non-existent, amount of expenses such that the net total, or "bottom line," remains unchanged. The common practice of reporting gross tuition revenue on the college's income statement and tuition discounts as an "institutional aid expense" on its statement of expenses has been referred to as "grossing up tuition revenue." One of the purposes of the new FASB rules is to discourage this practice.

THE FINANCIAL REPORTING REVOLUTION: FASB RULE 116 AND FASB RULE 117

Before 1965, most student financial aid was provided by private sources external to the institution. Financial aid provided by the institution's own endowment fund was also regarded as an external source. Prior to the implementation of FASB Rule116 and FASB Rule117, colleges treated their general or operating fund and their endowment fund as two separate entities. The operating fund was used, of course, to operate the college; tuition paid by students was paid into the operating fund. Scholarship aid given to students in the form of gifts or grants from the endowment fund were paid into the operating fund as though they were paid by a third party on behalf of the students. Such gifts or grants were not regarded by administrators as tuition discounts.

The effects of discounting tuition and fee revenue began to appear regularly in the management literature of higher education in the early 1990s after many industry analysts and economists began to focus on the actual net tuition and fee payments made by or on behalf of students (Hauptman, 1990, Breneman, 1993, Chapter 3, and College Board, 1995). These analysts argued that the historical practice of reporting gross tuition and fees was misleading to financial statement users because it did not convey an accurate sense of institutional resource inflows and outflows. Moreover, the practice obscured the need for institutions to manage their net tuition and fee revenues, rather than their gross tuition (NACUBO, 1997, p. 3).

Members of the audit community and standard-setting organizations also expressed concern over colleges accounting for deliberately foregone tuition as a matter of institutional policy (i.e., awards of institutional aid) (NACUBO, 1997) as an expense. They suggested that it is inappropriate to "gross-up" revenues and record off-setting expenses when such discounting does not meet generally accepted accounting procedures and definitions of revenues and expenses. As a result, new rules for fund accounting and the reporting of tuition discounts by private institutions of higher education were issued, in 1993, by the Financial Accounting Standards Board (FASB).

TABLE 1

TUITION DISCOUNT RATE BY CONSTITUENCY

Rate = Numerator / Denominator

Constituency	Numerator	Denominator
ADMINISTRATIVE Institutional Discount Rate: President, Board of Directors, Provosts, Academic Finance Officers, Financial Aid Directors	SIMPLE TUITION DISCOUNT	GROSS TUITION REVENUE
FINANCIAL FASB Definition: Treasurer, Financial Administrators, Auditors and Analysts	SCHOLARSHIP ALLOWANCES (Simple Tuition Discount + Gifts & Endowments)	GROSS TUITION REVENUE
MARKETING Student Definition: Admissions Directors, Enrollment Managers, Public Relations, College Books	STUDENT TUITION DISCOUNT (Scholarship Allowances + External Grants) Simple Tuition Discount + Gifts & Endowments + Pell Grants + SEOG Grants + Other External Scholarships	GROSS TUITION REVENUE

Because the new FASB rules promise to have such a profound effect on higher education financial reporting and on the visibility of tuition discounts in particular, one might ask, what is FASB and why do we recognize its authority? The rules followed by higher education for financial accounting and reporting are set by FASB for private institutions and by the Government Accounting Standards Board (GASB) for public institutions. FASB has been designated by the private sector to establish standards of financial accounting and reporting, including standards that govern the preparation of financial statements. Its authority derives from being recognized as the official standard setting body by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA). Although not required to do so by law, colleges and universities recognize the standards set by FASB and GASB for several substantive reasons.

FASB and GASB standards must be met by colleges and universities in order to obtain signed audits from public accounting firms. These signed audits, in turn, are required to obtain bond funding and credit from suppliers. Trustees of colleges and universities expect to see financial statements in the same form as those with which many manage their own businesses. Although not explicitly stated, many financial officers suspect that bond accrediting agencies would disapprove of colleges that did not produce FASB/GASB standard financial statements. Also, failure to provide annual audited financial statements would reduce the institution's credibility with potential donors, increasing the difficulty of fund raising.

Responding to FASB Rule117, Financial Statements of Not-for-Profit Organizations, guidance developed by NACUBO, in association with the AICPA, requires that tuition discounts be displayed much more prominently on institutions' financial statements. The guidance suggests that net tuition and fee revenues be reported as a single line item in a Statement of Activities, or the gross revenue may be reported, provided that the Scholarship Allowance is displayed immediately beneath as a reduction of, or contra-, revenue. Additionally, the NACUBO guidance makes it clear that institutional student aid given to cover room and board is to be treated as an expense, not a tuition discount.

FASB Rule 116, Accounting for Contributions Received and Contributions Made, removes the presumption of separateness of the income of an institution's endowment fund from its operating fund. Income from endowments established to provide financial assistance to students are to be reported only once - as income from investments. When such resources are used to cover foregone tuition revenues by students, revenue should not be recognized a second time as gross tuition and the institution should not report this granting of institutional financial aid as an expense. The institution, rather, now records a "contra-revenue" to tuition to reflect the discount to the student of tuition and fees.

DISCOUNT RATES BY CONSTITUENCY

Three principal groups within higher education use tuition discount rates, each with a slightly different definition. These groups might be called the Administrative Constituency, the Financial Constituency and the Marketing Constituency. College students are included in the Marketing Constituency. Table 1 contains a recapitulation of the three groups and the definition of the numerator of the discount rate ratio that is pertinent to each. *All three have the same denominator: gross tuition revenue.*

The memberships of the three constituencies should not be considered mutually exclusive. Most persons who work in higher education administration wear several hats. It is not only possible but probable that an administrator such as the academic financial officer will wear the hat and share the concerns of the Financial Constituency in some circumstances and wear the hat and share the concerns of the Administrative Constituency in other circumstances. This section attempts to define the three constituencies and the attributes, motivation and behavior that results from "where they sit." The author understands that his generalizations might not fit all institutions.

Administrative Constituency

The Administrative Constituency consists of boards of trustees, provosts and others who are concerned with how much money is available to operate the institution, including money to raise and maintain faculty salaries and expand educational programs. To them, tuition paid from Gifts and Endowments is the same as tuition that is paid out of the student's pocket because in their capacity as administrators they are concerned with what funds they have to work with rather than from where the

funds originate. The discount rate they manage is the one that tells them directly how much tuition revenue is being foregone. Accordingly, they plan and manage in terms of the *Simple Tuition Discount*.

Financial Constituency

The Financial Constituency includes financial officers, auditors, and analysts responsible for rating institutions' bonds. These persons are interested in the financial health of the entire organization, including the endowment fund. Their tuition discount definition is the *Scholarship Allowance* which includes tuition payments made in the form of grants from gift and endowment funds, or money the college "pays itself," as well as the *Simple Tuition Discount*. The *Scholarship Allowance* concept has been used by some schools since the late 1980s for budgetary analysis and planning. A recent NACUBO survey reports average *Scholarship Allowance* discount rates of 37.8 percent for freshmen and 31.3 percent for all undergraduates as of Fall 1997 (Lapovsky, 1998).

Marketing Constituency

The Marketing Constituency is interested in the tuition discount rate from the viewpoint of the student, or the *Student Discount Rate* as defined above. Its constituents include admissions directors, enrollment managers, public relations officials and institutional research analysts responsible for survey responses for the numerous college guides.

Students generally are not concerned with whether their tuition is paid for by the institution, by Gifts and Endowments, or by government or external grants. They are only concerned with how much tuition must be paid through family contributions and self-help (loans and work). The average tuition discount rate, based on the student definition and published explicitly or implicitly in college books, helps students decide to which schools to apply. However, the average discount rate rarely applies to an individual student's situation. Some suggest that publishing *Student Tuition Discount* rates that are distributed by the students' family incomes would benefit students by providing them with a better idea of what their education would cost at a particular institution. However, doing so would be further complicated by the fact that financial aid packages also depend on non-income related items in need analyses such as family assets and the number of family members in college and on the fact that many schools award merit scholarships.

APPLICATION OF THE ANALYSIS TO POLICY AND PUBLIC RELATIONS ISSUES

The Virtues of Being Clear on the Definitions

The preceding discussion of the terms, definitions, uses and constituencies associated with tuition discounting is useful for analyzing some of the more subtle and complex policy and administrative issues in higher education. One such issue is the effect of tuition discounts on net tuition revenue. When total tuition discounts rise faster than the gross tuition rate, net tuition revenue declines. The pernicious effects of this "over-discounted" tuition may be mitigated if at the same time the Gifts and Endowments portion of the *Scholarship Allowance* is increasing fast enough to offset the revenue loss to the Administrative Constituency represented by the increase in the *Simple Tuition Discount*. Although net tuition revenue is still declining, the Financial Constituency would likely be pleased because such a situation would imply that total income to the institution is rising due to increased gifts to the endowment fund.

Members of the higher education community who are not knowledgeable about finances frequently ask, If almost everybody is getting some form of discount, why don't we just lower our tuition thereby giving everybody a discount? Wouldn't doing so have little effect on the bottom line? Although reducing nominal tuition would have little or no effect on the students who receive substantial grant aid, it would reduce the tuition revenue received from those who pay the full price, usually the higher income students. Such a change would reduce net tuition revenue to the institution (see Breneman, p. 43, for an explanation of the mechanics of unfunded student aid, that is, the *Simple Tuition Discount*).

Reasons for Raising More Money for Financial Aid

Analysis of tuition discounting issues provides some strong, practical reasons for raising additional gift money for student financial aid. As noted above, academic administrators in search of funds to improve program offerings, or to provide faculty raises, often eye covetously the foregone revenue from the *Simple Tuition Discount*. Highly selective schools that could fill their classes with "full-pay" students

are particularly tempted to abandon full-need policies in their search for greater revenue. Before doing so, these administrators should consider the linkage between their endowment fund and the *Simple Tuition Discount*. Specifically, for every dollar added to the Gifts and Endowments portion of the *Scholarship Allowance*, the *Simple Tuition Discount* is reduced by a dollar. This means that for institutions with an endowment fund payout rate of four percent (something of an industry standard) for every $25 added to the endowment fund restricted to financial aid, the *Simple Tuition Discount* is decreased by a dollar. Moreover, it is decreased by a dollar in all succeeding years.

The interests of different members of the Administrative Constituency are important here. Provosts and deans probably prefer to raise the money for new programs directly because they would then have control over its use and can be sure it is used for the purpose intended. However, academic finance officers may have different views. To them, current gifts establishing programs that potentially will become popular and become difficult to cut, carry the risk of becoming "gifts that eat" after the donors tire of providing the annual funding. Finance officers might well prefer to see the equivalent amount of money given to the endowment fund, restricted to financial aid, where it reduces the *Simple Tuition Discount*, and increases the funds under their direction. Although the immediate effect is much less, it is permanent and moves the institution in the direction of financial aid independence.

The effect of increasing the portion of *Scholarship Allowances* funded by Gifts and Endowments is also important to those schools that use enrollment management techniques to maintain their student bodies. Currently, these decision-makers must choose whether to run their recruiting programs to maximize revenue, to maximize the number of students admitted, or to maximize the quality of their student bodies. As the portion of institutional student aid funded by Gifts and Endowments increases, the pressure to manage enrollment to maximize revenue decreases and other goals such as increasing the quality of the student body may be more easily pursued.

Explaining to the Public

The primary public relations concern generated by tuition discounting is the potential for adding to the general public's skepticism of higher education. Probably the most harmful effect of higher education's reluctance to talk openly about its finances, including tuition discounting, is that often its own employees are not conversant with the issues. Workers unfamiliar with the intricacies of their institution's finances may believe the assertion that their institution is "not discounting tuition, but rather it is investing in the future," means that literally no tuition discounting is taking place, and say as much when communicating with the public. The public hears a multiplicity of voices on the subject, each with a different view of the policy and functioning of the tuition discounting process. Understandably the public reacts with skepticism.

In the author's opinion, the light shown on tuition discounting by the new FASB rules is, on balance, a good thing. The new financial reporting regime is meant to give college administrators a more realistic view of the inflows and outflows of institutional revenues, and thereby an opportunity to improve financial planning. And if the information available to the public is accompanied by straightforward explanations, public skepticism should decrease.

The role of the *Simple Tuition Discount* within the *Scholarship Allowance*, arcane though it is, is important for developing a strategy for dealing with the growing presumption on the part of "full-pay" families that they are directly subsidizing needier students. It should be clear from the above discussion that there is no direct subsidy: tuition money is not being taken from "full-pay" students and given to students with need. Because portions of the tuition of students with need are foregone, the worst that can be said is that the "full-pay" students are indirectly subsidizing students with need. Even this assertion is mitigated when substantial portions of the *Scholarship Allowance* are funded by Gifts and Endowments. As the portion of the *Scholarship Allowance* that is funded by Gifts and Endowments increases, the burden shifts from the indirect subsidy of the "full-pay" students (i.e., from those who don't necessarily wish to provide such support) to a direct subsidy by contributors to the institution's endowment fund (i.e., to those who have actively chosen to provide such support).

Some suspect that some colleges raise their tuition in order to increase revenue from "full- pay" students, permitting them to give more tuition discounts to students with need. However, in the current highly competitive environment, it is doubtful

that colleges can significantly raise their tuition, particularly for altruistic purposes, without significant negative impact on their applicant pools. Although these are difficult concepts to explain to a skeptical public, they have the virtue of being true.

Probably the best reason for developing a widespread and clear understanding of tuition discounting and straightforward explanations to go with it is that not only will it reduce public skepticism, it could reduce public interest in higher education finances. It is the author's experience that once straightforward explanations to controversial subjects are found, the audience loses its appetite for the explanation. This can be frustrating to the analyst who has put in the time and effort to develop the explanation, but it is probably good for the analyst's college or university.

CONCLUSIONS

Because college finances are difficult to explain, and because college administrators sometimes don't want the public to know where their money comes from or for what purposes it is expended, higher education has been less than forthcoming about such concepts as tuition discounting. Part of the problem has been that the practice's terms and definitions have not been widely understood within higher education. Whatever the virtues of this opacity have been in the past, they are about to disappear as new FASB, and soon GASB, financial reporting standards for higher education become effective.

Close examination reveals that the definition of a tuition discount varies with the constituency using it. Three principal constituencies emerge: the Administrative Constituency, whose definition is the *Simple Tuition Discount*; the Financial Constituency, whose definition is the *Scholarship Allowance*; and the Marketing Constituency, whose definition is the *Student Tuition Discount*. Each of these definitions is a subset of the subsequent definition. Most confusion with respect to tuition discounting within higher education stems from the failure of these constituencies to recognize and have a clear grasp of the distinctions between their own and others' definitions.

Higher education will benefit if its leaders and administrators gain a thorough understanding of tuition discounting and state forthrightly that tuition discounts are being given. Highly selective schools would then be free to say that they view the discounts as investments in the educational future of the nation without increasing public skepticism.

A close examination of tuition discounting demonstrates to the families of "full-pay" students who have the impression that they are subsidizing needy students directly with their tuition money that this is not the case. At worse, they are indirectly subsidizing students with need and, as the portion of *Scholarship Allowances* financed by Gifts and Endowments increases, the indirect subsidy decreases. Further, in the current competitive environment, it is unlikely that colleges can raise tuition merely to make it possible to assist more students with need. This suggests that educational institutions may make both practical and public relations gains by increasing the balances in their endowment funds restricted to financial aid.

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